



Analysts Latest Front in Mutual-Hedge Talent Fight

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While demand for investment professionals continues to run high, meeting that demand is becoming more challenging for fund firms.

Apart from portfolio managers, analysts are seeing more competition for their services than ever before with fund firms increasingly in a tug-of-war with alternative shops.

"Hedge funds, private equity and real estate have a voracious appetite for good research people," and are willing to pay top dollar, says Alan Johnson, managing director of **Johnson Associates**, a compensation consulting firm.

Hiring good-quality investment professionals is harder than in the past. That's because fund shops have become more aggressive and will "fight tooth and nail" to keep good performers, says Todd Stratton, a partner at search firm **Fiderion**.

At the same time, analysts who have proven track records in providing above-average returns are difficult to land because "they have lots of opportunities," including at hedge funds.

"If you have an analyst with a specialty in a particular niche and can make money on that niche, hedge funds will pick them up and create a strategy around that one product niche," Stratton says.

But it's not all about the money, Johnson says. Analysts crossing to the other side are also weighing opportunities. Alternative investment shops tend to be less bureaucratic, less tenure-based and more performance-based, he says. Additionally, hedge funds, in general, let analysts run money.

To keep their best analysts, Johnson says fund firms need to promote them sooner, be more aggressive in pay and allow them increased opportunities to manage money.

American Funds is one of the few shops that allows its analysts to do so. It is known for its multi-manager system, and all the firm's funds have a sleeve managed by analysts. The California-based fund giant currently has more than 110 analysts and expands by about 8% every year.

"The analyst role here is essentially equal to a portfolio counselor," says Chuck Freadhoff, a spokesperson at the shop. "There's no difference in compensation structure and no difference in prestige." The firm refers to its portfolio managers as portfolio counselors.

Investment professionals at American Funds are compensated based not on how much money they manage, but on how well the money they manage performs relative to a benchmark. "An analyst can make as much money as a portfolio counselor. There's no financial incentive to move from analyst to portfolio counselor," says Freadhoff.

In fact, Freadhoff says moving from analyst to portfolio counselor is not considered a promotion. The only difference between the two is the investment universe, as the former is a specialist and the latter a generalist.

While American Funds has long subscribed to breeding "career analysts," that has become a growing trend among fund firms in recent years, some recruiters say.

Opening up a career track for analysts is one way for firms to hold on to top talent, as opposed to treating the analyst role as a stepping-stone to being a portfolio manager and risk having analysts leave if they're not given the opportunity.

"Firms are recognizing good analysts for the role that they play and are incenting them to remain in those roles," says Lawrence Lieberman, a recruiter for executive search firm **The Orion Group**. "Some good analysts are worth as much as good PMs in an analyst role."

Having career analysts also helps in maintaining stability and a consistent strategy.

While more attention is generally paid to PM departures, "it's also not good for analysts to be moving in and out like a revolving door," says David Kathman, an analyst at **Morningstar**.

In the past two years, **Fidelity** has actively encouraged a career track for its analysts, a slight departure from its largely "manager is king" ethos. Fidelity continues to build its analyst rank and has hired more than 90 U.S. equity analysts in the past 24 months.

Fidelity believes that its investment operations benefit from the fact that it provides its analysts with a career track, says firm spokesman Adam Banker. Additionally, a relatively small number of analysts also manage sector funds in their coverage, he says.

Other fund shops are creating portfolios run by analysts alone. **Janus** analysts are calling the shots at the [Janus Research Fund](#) and [Janus Global Research Fund](#) with good results. The former is ranked in the second percentile of **Lipper's** large-cap growth category while the latter is in the first percentile of Lipper's multi-cap growth category.

Kathman says the Denver-based shop has moved from being momentum-driven to being more research-focused. It currently has 48 analysts and 18 research associates.

Elsewhere, the analyst recruitment continues unabated. **T. Rowe** has hired 34 analysts since 2005 worldwide and now has 120 research professionals. **DWS Scudder** added 30 U.S. analysts in 2006 alone. Overall, the New York-based shop has some 138 U.S. analysts. **AllianceBernstein** has 265 buy-side analysts with an average of six years at the shop.

While fund firms may have a harder time hiring top-notch analysts or need to cough up more to secure their services, Johnson says that's better than having retrenchment and excess supply as in the bear market years.

"The industry is healthy, competitive and making a lot of money," he says. "It's not a bad problem to have. It beats the alternative."